

December 4, 2001

D.T.E. 01-100

Investigation by the Department of Telecommunications and Energy on its own motion, pursuant to G.L. c. 164 §§ 76, 94 and 94A, to investigate the appropriateness of the use of Risk-Management Techniques to Mitigate Natural Gas Price Volatility.

ORDER OPENING A NOTICE OF INQUIRY

I. INTRODUCTION

In Bay State Gas Company, D.T.E. 98-31, at 27 (1998), the Department noted that with the evolution of the gas marketplace, the use of various price risk-management tools may have the potential to benefit ratepayers. In recognition of the increases in gas costs experienced by customers during the 2000-2001 winter season, the Department announced that it would investigate whether to promulgate rules and/or amend 220 C.M.R. 6.00 et seq. to allow local distribution companies (“LDCs”) to file for recovery of projected under- or over-collection of gas costs more frequently than currently required in response to extraordinary price fluctuations. Petitions of Bay State Gas Company, et al., D.T.E. 01-09 through D.T.E. 01-18, at 10-11(2001). Subsequently, the Department directed each LDC to submit an amended Gas Adjustment Factor (“GAF”) whenever it projected the deferred gas-cost balance to yield a five percent (or more) over/under recovery of the total seasonal gas cost contained in the effective GAF. Investigation re: Cost of Gas Adjustment, D.T.E. 01-49-A at 8-11 (2001).

The Department seeks to inquire whether the use of various risk-management tools that could mitigate volatility of natural gas commodity costs may be in the public interest. Accordingly, pursuant to G.L. c. 164, §§ 76 and 94A, the Department seeks comments from interested persons regarding the structure of a potential risk-management protocol for Massachusetts LDCs.

The Department intends to explore the use of risk-management techniques by LDCs and requests comments on: (1) whether the Department should encourage or require the use of risk-management instruments; (2) if the Department encourages or requires the use of such

instruments how: (a) risk-management programs should be structured; (b) LDCs would define and recover the costs associated with risk-management; and (c) the Department would implement a risk-management program; and (3) the potential effect of LDC use of risk management programs and its effect on customer choice programs.

II. PROCEDURAL SCHEDULE

Comments in response to this Notice of Inquiry and responses to the questions as set forth in Section III. must be submitted to the Department within 30 days following publication of the notice attached to this Order. One original and 15 copies of all comments and responses should be filed with Mary Cottrell, Secretary of the Department. Comments should not exceed 30 pages in length and must be double-spaced. All comment filings must include a table of contents and an executive summary. After consideration of the comments received, the Department will decide whether additional procedures are necessary prior to developing guidelines regarding the use of risk-management techniques to mitigate natural gas price volatility.

All written pleadings or comments must also be submitted to the Department in electronic format using one of the following methods: (1) by e-mail attachment to dte.efiling@state.ma.us; or (2) on a 3.5" floppy diskette, IBM-compatible format. The text of the e-mail or the diskette label must specify: (1) an easily identifiable case caption; (2) docket number; (3) name of the person or company submitting the filing; and (4) a brief descriptive title of document. The electronic filing should also include the name, title and phone number of a person to contact in the event of questions about the filing. Text responses

should be written in either Word Perfect (naming the document with a “.wpd” suffix) or in Microsoft Word, (naming the document with a “.doc” suffix). Data or spreadsheet responses should be compatible with Microsoft Excel. Documents submitted in electronic format will be posted on the Department’s Website, www.state.ma.us/dpu/.

III. QUESTIONS

1. Should Massachusetts gas utilities be allowed or required to implement a risk-management program to mitigate price volatility for gas customers?
2. How will risk-management by LDCs affect gas unbundling and customer choice in Massachusetts?
3. Should gas utilities be limited to specific types of risk-management instruments? If so, what types?
4. Should there be a percentage volume of gas that LDCs would be allowed to hedge?
5. What should the core objectives of a hedging program be (e.g., least cost, price stability)?
6. How will the Department assess risk-management programs? What benchmarks should be used to measure a risk-management program’s performance?
7. What standard of review should the Department apply to the utilities’ initial risk-management program?
8. What types of costs are associated with risk-management? Should LDCs be allowed to recover these costs? If so, please explain how.
9. Should an incentive mechanism be used in conjunction with a risk-management program? If so, please explain how this mechanism should be structured.

IV. ORDER

Accordingly, the Department hereby

VOTES: To open an inquiry regarding the appropriateness of the use of risk-management techniques to mitigate natural gas price volatility; and it is

ORDERED: That within seven days of the date of this Order, Bay State Gas Company; The Berkshire Gas Company; Blackstone Gas Company; Commonwealth Gas Company d/b/a/ NSTAR Gas; Fall River Gas Company; Fitchburg Gas and Electric Light Company; Keyspan Energy Delivery New England d/b/a/ Boston Gas Company, Colonial Gas Company and Essex County Gas Company; and North Attleboro Gas Company shall publish notice of this proceeding as directed by the Order of Notice attached to this Order; and it is

FURTHERED ORDERED: That within seven days of the date of this Order, the secretary of the department shall serve a copy of this order on the service list of Unbundling of Natural Gas Local Distribution Company Services, D.T.E. 98-32 (1999).

By Order of the Department,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre Manning, Commissioner